The Standard Setting Process of International Financial Reporting Standards by the International Accounting Standards Board (IASB)

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This article provides information on the process of setting International Financial Reporting Standards used by the IASB.

The Standard Setting Process
International Financial Reporting Standards (IFRSs) are developed through an international consultation process, the "due process", which involves interested individuals and organisations from around the world.

The due process comprises six stages, with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points throughout:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the discussion paper
4. Developing and publishing the exposure draft
5. Developing and publishing the standard
6. After the standard is issued
1. **Setting the agenda**

The IASB, by developing high quality financial reporting standards, seeks to address a demand for better quality information that is of value to those users of financial reports.

When deciding whether a proposed agenda item will address users’ needs the IASB considers:

- The relevance to users of the information and the reliability of information that could be provided,
- Existing guidance available,
- The possibility of increasing convergence,
- The quality of the IFRS to be developed,
- Resource constraints.

To help the IASB in considering its future agenda, its’ staff is asked to identify, review and raise issues that might warrant the IASB’s attention. New issues may also arise from a change in the IASB’s *Conceptual Framework for Financial Reporting*.

In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.

In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB’s approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

2. **Planning the project**

When adding an item to its active agenda, the IASB decides whether to conduct the project alone or jointly with another standard-setter. Similar due process is followed under both approaches.

When considering whether to add an item to its active agenda, the IASB may determine that it meets the criteria to be included in the annual improvements process. The IASB assesses the issue against criteria such as

- Clarifying,
- Correcting,
- Well defined and sufficiently narrow in scope that the consequences of the proposed change have been considered,
- Completed on a timely basis,
  - All criteria must be met to qualify for inclusion in annual improvements.

Once this assessment is made, the amendments included in the annual improvements process will follow the same due process as other IASB projects. The primary objective of the annual improvements process is to enhance the quality of IFRSs by amending existing IFRSs to clarify guidance and wording, or correcting for relatively minor unintended consequences, conflicts or oversights.
After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage and a project team for the project will be selected. The project manager draws up a project plan under the supervision of the directors of the technical staff and the project team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

3. Developing and publishing the discussion paper
A discussion paper is not a mandatory step in the IASB’s due process. Normally the IASB publishes a discussion paper as its first publication on any major new topic as a vehicle to explain the issue and solicit early comment from constituents. If the IASB decides to omit this step, it will state its reasons.

Typically, a discussion paper includes a comprehensive overview of the issue, possible approaches in addressing the issue, the preliminary views of its authors or the IASB, and an invitation to comment. This approach may differ if another accounting standard-setter develops the research paper.

Discussion papers may result either from a research project being conducted by another accounting standard-setter or as the first stage of an active agenda project carried out by the IASB. If research has been performed by another accounting standard-setter, issues related to the discussion paper are discussed in IASB meetings, and publication of such a paper requires a simple majority vote by the IASB. If the discussion paper includes the preliminary views of other authors, the IASB reviews the draft discussion paper to ensure that its analysis is an appropriate basis on which to invite public comments.

For discussion papers on agenda items that are under the IASB’s direction, or include the IASB’s preliminary views, the IASB develops the paper or its views on the basis of analysis drawn from staff research and recommendations, as well as suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and presentations from invited parties. All discussions of technical issues related to the draft paper take place in public sessions.

When the draft is completed and the IASB has approved it for publication the discussion paper is published to invite public comment. The IASB normally allows a period of 120 days for comment on a discussion paper, but may allow a longer period on major projects (which are those projects involving pervasive or difficult conceptual or practical issues).

After the comment period has ended the project team analyses and summarises the comment letters for the IASB’s consideration. Comment letters are posted on the IASB’s website. In addition, a summary of the comments is posted on their website as a part of IASB meeting observer notes.

If the IASB decides to explore the issues further, it may seek additional comment and suggestions by conducting field visits, or by arranging public hearings and round-table meetings.
4. Developing and publishing the exposure draft

Publication of an exposure draft is a mandatory step in due process. An exposure draft is the IASB’s main vehicle for consulting the public. Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed IFRS (or amendment to an IFRS).

The development of an exposure draft begins with the IASB considering issues on the basis of staff research and recommendations, as well as comments received on any discussion paper, and suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and arising from public education sessions.

After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it, with a minimum of nine votes necessary to publish an exposure draft, the IASB publishes it for public comment.

An exposure draft contains an invitation to comment on a draft IFRS, or draft amendment to an IFRS, that proposes requirements on recognition, measurement and disclosures. The draft may also include mandatory application guidance and implementation guidance, and will be accompanied by a basis for conclusions on the proposals and the alternative views of dissenting IASB members (if any).

The IASB normally allows a period of 120 days for comment on an exposure draft. If the matter is exceptionally urgent, the document is short, and the IASB believes that there is likely to be a broad consensus on the topic, the IASB may consider a comment period of no less than 30 days, but it will set such a short period only after formally requesting and obtaining prior approval from 75 per cent of the Trustees. The project team collects, summarises and analyses the comments received for the IASB’s deliberation.

After the comment period ends, the IASB reviews the comment letters received and the results of other consultations. As a means of exploring the issues further, and soliciting further comments and suggestions, the IASB may conduct field visits, or arrange public hearings and round-table meetings. The IASB is required to consult the IFRS Advisory Council and maintains contact with various groups of constituents.

5. Developing and publishing the standard

The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft. Changes from the exposure draft are posted on the website.

After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft.

As it moves towards completing a new IFRS or major amendment to an IFRS, the IASB prepares a project summary and feedback statement. These give direct feedback to those who submitted comments on the exposure draft, identify the most significant matters raised in the comment process and explain how the IASB responded to those matters.
At the same time, the IASB prepares an analysis of the likely effects of the forthcoming IFRS or major amendment. The analysis will therefore attempt to assess the likely effects of the new IFRS on:

- The financial statements of those applying IFRSs,
- The possible compliance costs for preparers,
- The costs of analysis for users (including the costs of extracting data,
- Identifying how the data have been measured and adjusting data for the purposes of including them in, for example, a valuation model,
- The comparability of financial information between reporting periods for an individual entity and between different entities in a particular reporting period, and
- The quality of the financial information and its usefulness in assessing the future cash flows of an entity.

When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS. A pre-ballot draft is usually subject to external review, normally by the IFRS Interpretations Committee. Shortly before the IASB ballots the standard, a near-final draft is posted on its limited access website for paying subscribers. Finally, after the due process is completed, all outstanding issues are resolved, and the IASB members have balloted in favour of publication, the IFRS is issued, followed by publication of any project summary and feedback statement and any effect analysis.

6. After the standard is issued
After an IFRS is issued, IASB members and staff hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its provisions. The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRSs.

The IASB carries out a post-implementation review of each new IFRS or major amendment. This is normally carried out two years after the new requirements have become mandatory and been implemented. Such reviews are normally limited to important issues identified as contentious during the development of the pronouncement and consideration of any unexpected costs or implementation problems encountered. A review may also be prompted by:

- Changes in the financial reporting environment and regulatory requirements,
- Comments made by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS.

The review may lead to items being added to the IASB’s agenda. The IASB may also continue informal consultations throughout the implementation of the IFRS or amendment.

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